BALTIMORE'S INSIDE TRACK?

■ By Peter Tirschwell

THE PORT OF Baltimore, despite being on the doorstep of one of the world's wealthiest consumer markets, has struggled to find its place in the container market. It's the nation's largest auto port, but its location 150 miles up Chesapeake Bay and its lack of viable rail connections compared to New York and Norfolk has left Baltimore with a negligible presence in the competitive East Coast market.

Last year, it ranked seventh among East Coast ports, commanding a 3.8 percent share in containers, compared with 34 percent at New York-New Jersey, the East Coast's largest port, according to PIERS data. Baltimore currently has eight services versus 30 at Virginia and 64 at New York, underscoring the point that what Baltimore considers its home market — the wealthy Washington-Baltimore-Philadelphia corridor anchored by Maryland, the state with the highest per capital income — is largely served by other ports, including those on the West Coast.

"There is a lot of local consumption here in Baltimore that is being discharged in New York and being trucked down I-95, or it arrives in Virginia and is barged in," said James J. White, executive director of the Maryland Port Administration.

But thanks to two major developments, the port is on the brink of a major change in its positioning. Beginning around August or September, Baltimore will officially join Virginia as the only East Coast ports in the elite 50-foot club — those that can claim an unimpeded 50-foot depth from the ocean to the berth. Thus, when the Panama Canal is expanded in 2014 to handle ships capable of carrying 12,500 20-foot equivalent units, Baltimore will be ready to handle them.

Baltimore has long had a 50-foot channel, but it was used for iron ore, and it didn't extend to its container berths. But under a 2010 deal in which Ports America paid $140 million to secure a 50-year lease at Seagirt Marine Terminal, the terminal operator agreed to invest more than $100 million to extend the channel to the berth and rebuild it to handle 8,000-TEU ships and larger. With the forthcoming arrival of four super-post-Panamax cranes, the port will enter the mega-ship league, a claim few East Coast ports are truly able to make.

The second development concerns rail. Traditionally challenged by a single-stack-height tunnel linking the port to the interior, and limited double-stack service, only a fraction of Baltimore's current container volume moves by rail. CSX, however, by 2014 will complete an intermodal container transfer facility outside Baltimore that will connect into its National Gateway double-stack intermodal network extending into the Midwest.

Although the tunnel will remain a constraint, Baltimore will achieve what it traditionally has conspicuously lacked: viable double-stack access to the interior, even if only served by a single railroad and dependent upon CSX pricing Baltimore routings competitively.

The prospect of the two developments — competitive water depth and double-stack rail service — was enough to lure Ports America into a deal involving a financial commitment exceeding $1 billion during the life of the lease.

The question is, what will make the deal work? According to Mark Montgomery, CEO of Ports America Chesapeake, "super relevant for us" is the estimated 3.5 million containers a year coming into Baltimore's regional market, of which a larger share could enter via a more competitive Port of Baltimore. "We know there's cargo here," he said.

Shippers' increasing focus on the carbon footprint is another factor: The 10-hour steaming time up the Chesapeake flips from a burden on carriers to an opportunity for customers. "For the BCO (beneficial cargo owner), we're 150 miles closer to where their freight needs to get to," Montgomery said. Added White, "You have more cargo on the big ships, and these big ships are more economically friendly than ships built just five years ago. We think this will help us immensely."

The rail is another advantage, but will take time to build up volume density, a key element of long-term viability in intermodal rail. Key to that will be CSX's pricing, "If pricing on the National Gateway route is competitive, Baltimore will work for rail cargo," Montgomery said.

And what about the port's 50 feet? Observers say the depth will help but doesn't guarantee success on its own. "Fifty feet of water definitely is the ante to play the game in the East Coast container market," said James Brennan, a port consultant with Norbridge. "But 50 feet alone does not change the major challenge they face in trying to compete in that market," which includes service frequency, transit time up the bay and being at a disadvantage relative to New York and Norfolk in competing for discretionary cargo, he said.

Still, Baltimore's moves promise more churn in the East Coast market. In the end, that will be good for customers. JOC

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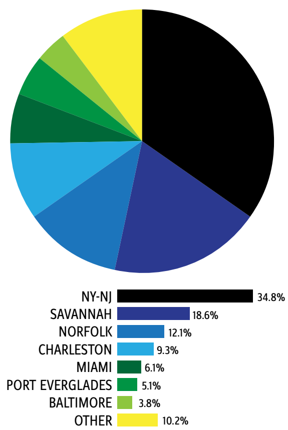
EAST COAST PORT BREAKDOWN

■ *Market shares among the Top 7 East Coast container ports for 2011.*



Total Volume: 12,245,048 TEUs

Source: PIERS, a division of UBM Global Trade and sister company of The Journal of Commerce, www.piers.com